international conference would be called, consisting of leading financiers and economists to consider carefully the question of the situation in each and every country, and on this basis readjust the financial obligations of the various countries, one to another. This would bring about a sanitation of economic relationships which would lift a burden from the shoulders of everyone engaged in productive activity. The world at present is much like a bankrupt concern which, nevertheless, is continuing to stagger on without trying to reach some adjustment with its creditors. In addition to an international economic conference, the question might well be raised in many of the countries whether it would not be better for everyone concerned if the internal debt were cancelled. If we take a country like Germany, for example, its internal debt and its international obligations are such that in one form or another everyone having means at all will face what amounts to a recurrent confiscation of property. Would it not be better if the state were to frankly repudiate all its internal debts and permit everyone start afresh? After all, such a repudiation would strike those very same people who will suffer from a system of taxation which is to be regarded as being equivalent to gradual confiscation. An old proverb says, "An end with frightfulness is to be preferred to frightfulness without end." It seems to me that this proverb might readily be applied to the present financial state of the world.

A DISCUSSION OF PROFESSOR CASSEL'S ARTICLE

By A. BARTON HEPBURN
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I have read Professor Gustav Cassel's paper with very great interest and general approval. I take exception to some things, however. *What has Happened to the World's Monetary Standards* is well stated.

Like all devotees of the quantity theory of money, however, Professor Cassel gets the cart before the horse. Under the heading "Popular Ideas," in arguing that the quantity of money fixes the price level and in combating popular ideas which are erroneous in his opinion, he says, "This is the case, *e.g.*, when people speak of high wages, high cost of raw material, etc., as the causes of the general increase in prices." The cost and hence the prices of finished goods are represented mainly by the cost of labor and the cost of raw material. When the cost of these items is increased, the cost of the finished product is necessarily increased, and high or higher prices inevitably result. This is so manifestly true that it seems strange that anyone can argue that the quantity of money is alone responsible for increased prices. People do not actually borrow money in advance with which to go shopping, even when they arrange credit in advance. The issue of the credit instrument in payment invaribly follows the transactions. People buy products and then they seek some sort of credit

with which to pay for the same. This may result in increased bank credit; it may result, in certain instances, in increased bank circulating notes, but the increase of the credit instrument, whatever form it may take, follows the business transaction, and is the result and not the cause. When at the beginning of the European war, because of the limited supply of commodities, different nations began bidding against each other in order to supply their needs, that bidding necessarily increased the price. Then these respective bidders sought credit as a means of payment. It was the competitive bidding that advanced the prices, not the creation of credit instruments with which to pay for commodities.

The fact that Europe, in the first two years of the war, sent us a billion dollars in gold in payment for their purchases was not what advanced prices, nor would the cause have been money, had they made loans in this country instead, to pay the debts incurred. It was their necessitous and insistent demand for the product and their bidding against each other that advanced prices, and not the quantity of money or credit instruments. Credit instruments, whether currency or otherwise, are not created in advance of business transactions, but are created to enable the party purchasing to consummate the transaction by means of payment. Payment is a subsequent event.

I agree with Professor Cassel that the world is suffering at present most severely from the uncertainty of the internal value of money in the different countries. Many years ago my bank correspondent in Amsterdam gave me a luncheon which was attended generally by the bankers of Amsterdam. I recall one of the bankers telling me that during our Civil War he purchased a large volume of United States bonds, paying for the same in European exchange, which of course was the equivalent of gold at that time, at 43 cents on the dollar. He held these bonds until after the resumption of specie payment in 1879 and later sold them at 118. Gold went to a premium in the United States in 1862 and remained at a premium until the resumption of specie payment, January 1, 1879. During this interval we had the "greenback" craze and the doubt as to whether the United States would redeem its obligations in gold according to their tenure had the effect of greatly depreciating our currency. Our legal tender note was worth at one time only 40 cents on the dollar. From the close of the Civil War till January 1, 1879, there was a continuous trade balance in favor of the United States. The balance of trade is only one factor in determining exchange; the doubt as to the real value of a country's currency is another, and very important element to be considered.

Professor Cassel says also, "In the whole world the rates of discount have been too low during the war." That is manifestly true. If our government had offered its bonds at the current rate of interest instead of appealing to the patriotism of the people and resorting to a propaganda in order to place the issue, the bonds would have stayed at par or above and the public would have continued to own them instead of selling them, forcing them into money centers, and very largely into the banks. The apparent saving

in the low rate of interest cost people many times that rate of interest in the depreciation of their securities and the inflation of prices generally.

Prices generally depend upon the law of supply and demand. Money is no exception. High prices lessen the demand and tend to bring about a stable equilibrium. It is always in the interests of commercial communities to charge fair rates for money as it is to charge fair rates for any other article or service. Had our government paid fair rates they would have kept their securities at or about par, kept them in the hands of the public and made it much easier to overcome high prices which are the result of inflation.

Our government spent over a billion dollars purchasing its own securities in the market, under the mistaken idea that they were sustaining the prices of the same. The prices, nevertheless, continued to recede. Had they not adopted this policy, the interest being certificates in the banks would be lessened by that amount, and our commercial and financial interests would be in that much better position.

We can have no deflation until this floating debt of the government carried by the banks in the form of interest-bearing certificates, which now exceeds three billions of dollars, is retired. The banks will then have sufficient funds to supply the commercial demands of the business community, and prices will go down from their present dizzy height to a more normal level.

I cordially endorse what Professor Cassel says about the reduction of state expenditures. Until the incomes of the governments recently at war equal their expenditures; in other words, so long as they go on increasing their debt, deflation is impossible and the uncertainty of the value of their currency is intensified.

This is a question which must be settled by each country itself. England's trade balance, according to Lloyd George, is now favorable and her income will, for the present fiscal year, equal her expenditures. England is in a position to "come back" and resume her position as one of the leading commercial nations of the world. The continental countries are by no means in as favorable a condition.

COMMENTS ON PROFESSOR CASSEL'S ARTICLE

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I AM entirely in agreement with Professor Cassel's explanation of the general rise of prices and of what is called the "dislocation of the exchanges." I applaud his exposure of the folly of supposing that a hoard of gold which no one may draw upon is of some immediate use in supporting the value of a paper currency, and I welcome his support for the doctrine which I have (without much success) been trying to teach the public, that the high profits, supposed to be due to some witchcraft called "profiteering," are simply the result of a depreciating currency which means a rise of prices between the time of buying and the time of selling. As to reme-